THE TEAM WITH THE BEST PLAYERS WINS……. Jack Welch

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IF YOU ARE STANDING STILL, YOU ARE MOVING BACKWARDS

By William York, VP of Marketing

For the average business person today, perfect storms don't get much more perfect than this: major upheavals in the world of tax, trade, tariffs, technology and customer expectations are seemingly around every corner forcing companies to redefine where and how they do business.

So where to start?
For today, let's focus on two major issues.....healthcare and cyber security.

HEALTHCARE: Uncertainty of regulator changes, increased cost of care, and restrictions to access of coverage continues to threaten the amount of control employers have over their healthcare insurance. Industry studies show that these costs can account for as much as 35 percent of payroll expenses and the availability and quality of benefit programs are among the key determining factors in an employer's ability to attract and retain talent.

CYBER THREATS: According to a report by Aon, U.S. cyber insurance premiums rose 37 percent to $1.8 billion in 2017. Cybercrime is one of the fastest evolving risks for business. A report from Cybersecurity Ventures predicts that by 2019 ransomware alone will breach a businesses' cyber security every 14 seconds. The same report suggests "cybercrime epidemic" is the greatest risk to every company in the world, suggesting it could cost the world $6 trillion annually by 2021.

Companies are beginning to take these risks more and more seriously, but there appears to be a gap between **awareness and action** both in controlling healthcare cost and managing possible cyber risk.

Captive Solution

This is where the alternative solutions offered by captive insurance companies can be advantageous. A growing number of employers are tapping into their captive insurance company to fund healthcare cost and protecting their enterprise from cyber hacking. Captive experts' estimate that the key factor driving employers to tap into their captive to fund these benefits is a **cost savings**!

Benefit experts say that when employing a healthcare captive a business can save as much as 35 percent versus a fully insured health insurance program – 15 to 20 percent versus an ASO plan.

These savings are possible because the captive (not an outside commercial company) can earn the underwriting profit and investment income on premiums that its sponsoring company pays to the Captive.

Another advantage of this approach is that captive benefit funding diversifies a captive's book of business. Adding benefits to a captive's risk portfolio can provide stable underwriting and may provide additional rationale to justify the deductibility of premiums for income tax purposes. This will ensure greater cost predictability compared with purchasing coverage in the Commercial market where rates can swing wildly from one year to the next.

On the cyber side, a benchmark captive report, "*Captives at the Core: The Foundation of a Risk Financing Study"* issued by Marsh Captive Solutions offers a comprehensive review of how organizations use their captive insurance companies. Marsh reports a 40 per cent increase in total number of captives over the past 10 years as more companies see captive use at the core of innovative risk management strategies. Highlights of this report include the following:

- The number of owners using captives for cyber liability programs increased by nearly 20 percent in 2016, representing the fastest growing non-traditional risk in Marsh-managed captives.

- A majority of existing Marsh-managed captives – 74 percent of US Captives see funding corporate retained risk, such as large deductibles and self-insured retentions, as their captive's primary benefit.

- Within the U.S., competition among domiciles has increased, enhancing benefit and cost savings.

- Micro captives, those generating less than $2.3 million in premium annually -- continue to dominate the landscape and now account for almost 44 percent of Marsh- managed captives, up from 24 percent in 2012.

Aon's Global Risk Management Survey 2017 found that while cyber risk was perceived by participating companies as the fifth top risk, just 33 percent had purchased cyber insurance,

"Houston we have a problem".

Historically, cyber risk coverage has focused on data loss; however, with the cyber landscape changing, the type of coverage required by companies is broadening making it difficult for commercial markets to keep up.
Thus, the alternative solutions offered by captive insurance companies can be advantageous. Aon predicts global premiums for cyber to be between $5 billion and $7 billion in three years, up from around $2 billion in 2017.

Because of this rapid and ever-evolving growth, the need for flexibility and management control make the captive insurance company quite beneficial and essential to assist in this risk management crisis.

Likewise, with the challenges of today's environment, more and more employers are exploring the opportunity to take control of their business health plan costs that make more financial sense.

Healthcare Captives (HCC) manage cost on multiple levels:

- The HCC will control facility cost unlike commercial carriers who profit under the current ACA legislation.
- The HCC will reduce prescription cost by dealing direct with manufacturers and paying only a dispensing fee to the pharmacies.
- The HCC will create stop loss for better control.
- The HCC will create a superior wellness program.
- The HCC will allow access to any major facility.
- The HCC will pay any subscribing physician without limitation.
- The HCC will reduce your current premium with the opportunity of a dividend back to your business based on actual claims.

Today, many U.S. states allow for the establishment of captives. The vagaries and cycles of the conventional insurance markets plus the multiple threats facing businesses continue to spur captive growth. Corporations, frustrated by constant uncertainty, form captive vehicles that eventually grow to control many billions in new assets and insurance premium revenue. These factors directly benefit the employees and their plan participants, helping to create a happier workforce and significant competitive advantage in the new very challenging tight talent market.

Captives tend to be long term projects that have significant advantages as insurance premiums rarely return to the conventional markets. In fact, captives have been such an efficient risk management tool for mid-market and large companies that nearly every Fortune 1000 company, many times, operates one or more captives. **Captives represent the ultimate tool for a business to be able to fend off the 21st century threats faced today.**

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